



Treasury Inspector General for Tax Administration

PROGRESS HAS BEEN MADE IN IMPROVING THE ACCURACY OF TRUST FUND RECOVERY PENALTY TRANSACTIONS; HOWEVER, SIGNIFICANT WORK REMAINS

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Highlights

Highlights of Report Number: 2007-10-183 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division and the Chief Financial Officer.

IMPACT ON TAXPAYERS

The Government Accountability Office has repeatedly reported that the Internal Revenue Service's (IRS) accounting for trust fund recovery transactions needs to be improved. TIGTA identified two areas management should address to help assure the accuracy of these types of transactions in the future: reconsider the projected completion date for the data cleanup effort and evaluate the accuracy of transactions posted during the data cleanup. The accurate posting of transactions to taxpayer accounts with Trust Fund Recovery Penalty (TFRP) assessments is critical to ensuring IRS records regarding taxpayer balance-due amounts are correct. Inaccurate account balances could result in incorrect information being provided to taxpayers attempting to resolve their delinquencies.

WHY TIGTA DID THE AUDIT

This audit is part of our discretionary audit coverage and was requested by the Chief Financial Officer. The review was conducted to determine whether the IRS has developed an effective methodology to improve its ability to readily and accurately account for TFRP transactions.

WHAT TIGTA FOUND

Progress is being made in addressing the reliability of TFRP transaction information recorded in taxpayer accounts. Specifically, as part of its efforts to address the long-term material weaknesses associated with the processing of TFRP-related transactions, the IRS plans to begin implementing systemic posting of payments on TFRP assessments to all related accounts beginning in March 2008. In preparation for implementation of the systemic cross-posting of payment transactions, the IRS initiated a large-scale cleanup of taxpayer accounts with these assessments.

While the ongoing cleanup should significantly improve the reliability of existing information in taxpayer accounts, TIGTA identified two areas that IRS management should address to help assure the cleanup and conversion are successful. First, the projected timetable for completion of the data cleanup needs to be reconsidered. Based on present staffing and prior production rates, the estimated remaining accounts will not be completed until significantly later than the current estimated completion date of January 2008. Also, the action plan guiding the cleanup does not include any steps or dates relating to confirming the impact of the cleanup on the overall accuracy of taxpayer accounts.

Second, additional consideration should be given to evaluating the accuracy of transactions posted during the data cleanup. The IRS stated that accounts will be reviewed only once as part of the manual cleanup. While this decision is understandable in light of the amount of resources assigned to the cleanup effort, it puts the IRS at risk of not identifying all material errors in taxpayer accounts prior to conversion to systemic processing.

WHAT TIGTA RECOMMENDED

TIGTA recommended the IRS reevaluate the estimated completion date for the data cleanup and the timing of subsequent planned events, amend the TFRP action plan to include an evaluation of the impact of the cleanup on the overall accuracy of taxpayer accounts, and evaluate the feasibility of conducting a final review of all TFRP accounts for errors after the cleanup is completed.

In their response to the report, IRS officials stated they agreed with the recommendations. They have reevaluated the estimated completion date for the cleanup and updated the TFRP action plan to include monitoring of error reports. Based on additional staff being trained, the IRS anticipates meeting the January 2008 completion date. Management plans to perform a final assessment of the cleanup results at project completion to evaluate the feasibility of conducting another review of all TFRP accounts prior to converting to a systemic payment posting process.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200710183fr.pdf>.